COMPANY RESULTS

CTOS Digital (CTOS MK)

2Q25: Below Expectations; Ongoing But Temporary Cost Pressures

CTOS' 1H25 core net profit came in at RM36.7m (-22% yoy), accounting for 34% and 33% of our and consensus expectations respectively. While 1H is seasonally weaker, we view the results as below expectations due to higher-than-expected ongoing costs from past product investments. Management revised down its 2025 internal earnings target to RM85-90m. Accordingly, we also revise our 2025/26 earnings lower by 20%/18% respectively. Maintain HOLD with a lower target price of RM0.93.

2Q25 RESULTS

Year to 31 Dec (RMm)	2Q25	qoq % chg	yoy % chg	1H25	yoy % chg
Revenue	79.0	3.8	3.1	155.1	4.6
Key Accounts (KA)	39.4	3.5	(1.3)	77.4	3.3
Commercial	30.1	3.0	(1.3)	59.4	(2.5)
Direct-to-consumer (D2C)	9.5	8.4	52.6	18.3	47.5
Gross Profit	52.6	(1.4)	(6.5)	106.0	(2.5)
EBITDA	19.5	4.5	(28.1)	38.2	(27.7)
PBT	22.9	58.0	(15.5)	37.5	(24.2)
Tax Expense	(1.9)	691.5	5.0	(2.1)	(37.8)
Net Profit	21.2	46.5	(17.0)	35.6	(23.2)
Core Net Profit	22.1	50.5	(15.0)	36.7	(22.2)
Margins	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
EBITDA	24.7	0.2	-10.7	24.6	(11.0)
PBT	29.0	9.9	-6.4	24.2	(9.2)
Core net profit	27.9	8.7	-6.0	23.7	(8.2)

Source: CTOS Digital, UOB Kay Hian

RESULTS

- **Below expectations.** CTOS Digital's (CTOS) 2Q25 core net profit came in at RM22.1m (+51% qoq, -15% yoy), after excluding exceptional items such as Employee Stock Option Scheme (ESOS) payment expenses, unrealised forex loss and right-sizing exercises for cost and resource optimisation. This brings 1H25 net profit to RM36.7m (-22% yoy), accounting for 34% and 33% of both our and consensus' full-year estimates. While 1H is seasonally softer, results were below expectations as it typically contributes 44-48% of full-year earnings (1H22–1H24). The negative variance was mainly due to higher-than-expected ongoing costs from past product investments, which are set to be discontinued in FY25.

- **CTOS declares the second interim dividend of 0.65 sen for 2025.** This represents a payout ratio of 71% and is in line with the group's minimum dividend policy of 60%.

KEY FINANCIALS

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	261	305	321	344	388
EBITDA	75	75	44	58	85
Operating profit	89	92	66	85	115
Net profit (rep./act.)	118	106	86	103	111
Net profit (adj.)	133	108	86	103	111
EPS (sen)	5.8	4.7	3.7	4.5	4.8
PE (x)	14.9	18.4	22.9	19.2	17.8
P/B (x)	3.3	3.2	2.8	2.7	2.6
EV/EBITDA (x)	28.2	28.2	48.3	36.3	24.9
Dividend yield (%)	3.9	3.8	2.6	3.1	3.4
Net margin (%)	45.3	34.9	26.8	29.9	28.7
Net debt/(cash) to equity (%)	14.3	13.7	18.9	19.8	20.2
Interest cover (x)	12.2	7.7	5.9	7.8	10.8
ROE (%)	8.6	17.5	12.8	14.2	15.0
Consensus net profit	-	-	112	129	135
UOBKH/Consensus (x)	-	-	0.77	0.80	0.82

Source: CTOS Digital, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM0.855
Target Price	RM0.93
Upside	+8.8%
(Previous TP	*RM1.17)*

COMPANY DESCRIPTION

CTOS is mainly involved in the business of credit reporting, digital software-related services, software development, outsourcing and training services, and investment holding. It also facilitates credit extension and commercialises credit risk management.

STOCK DATA

GICS sector	Financial Services
Bloomberg ticker:	CTOS MK
Shares issued (m):	2,310.0
Market cap (RMm):	1,975.1
Market cap (US$m):	467.8
3-mth avg daily t'over (US$m):	1.1

1Price Performance (%)

52-week high/low RM1.43/RM0.85

1mth	3mth	6mth	1yr	YTD
(6.0)	(25.0)	(29.3)	(38.5)	(28.8)

Major Shareholders	%
Abrdn plc	30.2
Employees Provident Fund Board	20.2
Jade Vine Sdn Bhd	19.7

FY25 NAV/Share (RM)	0.31
FY25 Net Debt/Share (RM)	0.06

PRICE CHART

Source: Bloomberg

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- **Top-line growth remains intact yoy but margins contracted.** In 2Q25, CTOS recorded a commendable revenue of RM79m (+3% yoy), fuelled by strong growth in Malaysia. The top-line growth mainly reflects better demand in the Direct-to-Consumer segment as the group secured 165,000 new users in 2Q25, bringing its total user base to 4.6m. However, bottom line profit contracted 15% yoy, reflecting higher operating costs such as cost of sales (+29% yoy), sales and marketing expenses (+36% yoy). As a result, core net profit margin contracted 6.0ppt yoy.
- **Management has revised down its internal earnings target for 2025,** primarily due to the ongoing costs from past product investments and a more prolonged right-sizing exercise. Consequently, the internal earnings target for 2025 has been adjusted to RM85-90m, down from the previous RM118-123m. However, management has reassured that all cost optimisation efforts will be completed in FY25, with growth expected to resume in FY26.

STOCK IMPACT

- **Capturing the Total Addressable Market (TAM) in both Indonesia and the Philippines.** Within the ASEAN region, Indonesia and the Philippines are among countries that have the lowest household debt vs GDP per capita ratio at <20% of its GDP. This compares with Malaysia and Thailand which are both >75%. Meanwhile, the Indonesian and Philippines markets are also largely underbanked, with unbanked populations of 81% and 75% respectively, which make it difficult for lenders to evaluate consumers' new loans applications using traditional methods. As such, we believe that the acquisitions of Prime Analytics and Finscore will be able to help CTOS further penetrate these underserved countries by utilising the telco data.
- **Loans growth continues to gain traction, boding well for CTOS' product demand.** Malaysia's loans growth edged upwards to 5.3% yoy in May 25 (Apr 25: +5.1% yoy). This was primarily driven by stronger construction loans, which grew 3.7% yoy in May 25 (Apr 25: +1.9% yoy). With the accelerating momentum in loans growth recovery coupled with an anticipated OPR rate cut in 2H25, we anticipate a meaningful expansion of marketplace and credit demand in 2H25, which will in turn result in pent-up activations and potential income pulls to CTOS for its various business analytic and credit assessment solutions.

EARNINGS REVISION/RISK

- We downgrade our 2025/26 earnings forecasts by 20%/18% respectively, after revising our revenue growth assumptions and cost structure in line with management guidance.

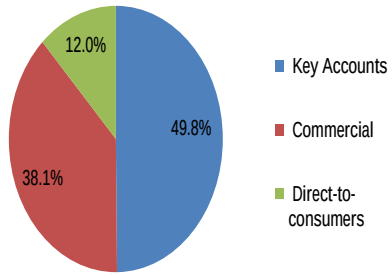
VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower target price of RM0.93 (from RM1.17),** in tandem with our earnings cut, still based on 25x 2025F PE, which is -1.0SD below its mean. While we continue to view CTOS as a well-positioned proxy for the growing demand for credit reporting services in Malaysia, Indonesia, and the Philippines, we note that near-term cost pressures may persist before growth reaccelerates.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

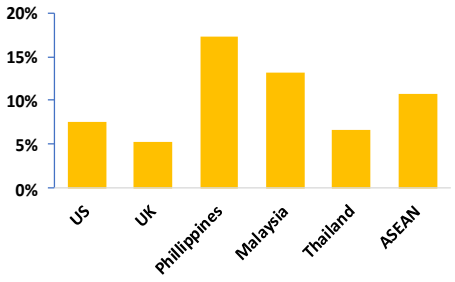
• **Environmental**
- No environmental issues which may materially impact biodiversity or climate change in any significant way.
• **Social**
- Conducted over 200 financial education roadshows for Malaysia's consumers.
• **Governance**
- Comprehended and applied Malaysian Code on Corporate Governance (MCCG).

2Q25 SALES BREAKDOWN



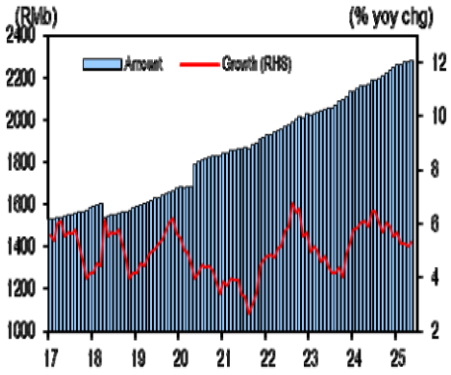
Source: BNM, UOB Kay Hian

CREDIT REPORTING INDUSTRY CAGR (2023-25)



Source: IDC Malaysia, CTOS, UOB Kay Hian

MALAYSIA TOTAL LOANS GROWTH



Source: BNM, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	304.9	321.3	344.0	388.1
EBITDA	74.9	43.7	58.1	84.9
Deprec. & amort.	(16.7)	(22.1)	(26.7)	(30.5)
EBIT	91.6	65.7	84.8	115.4
Associate contributions	30.6	25.7	28.2	31.0
Net interest income/(expense)	(9.8)	0.0	0.0	0.0
Pre-tax profit	112.5	91.4	113.0	146.4
Tax	(6.6)	(5.3)	(10.2)	(35.1)
Minorities	0.4	0.0	0.0	0.0
Net profit	106.3	86.1	102.9	111.3
Net profit (adj.)	107.5	86.1	102.9	111.3

BALANCE SHEET

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	10.6	91.1	96.1	100.1
Other LT assets	768.5	769.8	771.1	772.4
Cash/ST investment	19.4	33.8	46.1	60.6
Other current assets	75.4	79.3	84.8	95.3
Total assets	873.8	974.1	998.1	1,038.5
Other current liabilities	125.5	87.3	89.4	94.4
LT debt	104.8	139.5	140.5	141.5
Other LT liabilities	20.4	20.5	22.4	20.4
Shareholders' equity	623.1	726.8	745.8	782.2
Total liabilities & equity	873.8	974.1	998.1	1,038.5

CASH FLOW

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	103.9	91.0	99.4	104.2
Pre-tax profit	112.5	91.3	113.6	146.3
Tax	(6.6)	(5.3)	(10.2)	(35.1)
Deprec. & amort.	(16.7)	(17.8)	(18.8)	(19.6)
Associates	(30.6)	(25.7)	(28.2)	(31.0)
Working capital changes	(14.7)	5.6	(5.4)	(7.5)
Non-cash items	41.0	50.3	43.3	42.0
Investing	(32.6)	(25.0)	(25.0)	(25.0)
Capex (growth)	(33.5)	(25.0)	(25.0)	(25.0)
Investments	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(69.5)	(51.6)	(62.0)	(66.7)
Dividend payments	(72.2)	(51.6)	(62.0)	(66.7)
Proceeds from borrowings	74.5	0.0	0.0	0.0
Loan repayment	(58.7)	0.0	0.0	0.0
Others/interest paid	(13.0)	0.0	0.0	0.0
Net cash inflow (outflow)	1.8	14.4	12.4	12.5
Beginning cash & cash equivalent	15.8	19.4	33.8	46.1
Changes due to forex impact	1.8	0.0	0.0	0.0
Ending cash & cash equivalent	19.4	33.8	46.1	58.6

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	24.6	17.9	22.2	27.2
Pre-tax margin	36.9	28.4	33.0	37.7
Net margin	34.9	26.8	30.0	28.7
ROA	12.6	9.3	10.5	11.0
ROE	17.5	12.7	14.0	14.6
Growth				
Turnover	16.6	5.4	7.1	12.8
EBITDA	(0.0)	(23.0)	32.5	38.1
Pre-tax profit	3.6	(18.8)	24.5	28.8
Net profit	(10.2)	(19.1)	20.3	7.6
Net profit (adj.)	(19.0)	(20.1)	20.3	7.6
EPS	(19.0)	(20.1)	20.3	7.5
Leverage				
Debt to total capital	14.4	16.1	15.9	15.3
Debt to equity	16.8	19.2	18.8	18.1
Net debt/(cash) to equity	13.7	14.5	12.7	10.6
Interest cover (x)	7.7	5.9	7.8	10.8

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